

# The pitfalls of financial benchmarking

The number crunchers could be chewing on the wrong figures

Recently I spent two hours with a management consultant trying to help her identify appropriate metrics for benchmarking a client's communication function. Some of the initial financial measurements that were being considered raised some concerns.

## Financial efficiency measurements

The most common financial measurements compare a particular number about the communication function against a number related to the organization as a whole, eg:

- Number of communicators vs. total employees;
- Communication budget as a percentage of the organization's revenue.

Other measures compare a cost per product or service, such as the cost per issue of a publication or the cost of the advertising budget divided by audience "impressions."

So, what is a "good" number? Typically, companies decide this after they benchmark against other companies' numbers. However, this presents some more challenges.

## The organizational context

While it's useful to benchmark best practices among companies in other industries, financial metrics are best compared against companies most like our own. For example:

1. **Service companies** may need more communicators than manufacturers of the same size because they have a larger percentage of employees who have direct, unsupervised contact with customers. These employees may require more communication to achieve customer satisfaction.

2. **Consumer product or service companies** and governmental units may need more external communicators because they have larger audiences to reach than wholesale or business-to-business companies. They are also likely to get

more calls from the media, especially if their operations have health, safety or environmental implications.

3. **Publicly held companies** may need more communicators than privately held companies, and not only for investor relations.

4. **Geographically dispersed companies** may need more communicators. In multinationals, differences of language and culture are better handled by local communication staffs than a single corporate staff.

5. **Decentralized companies** may need more communicators because of the reporting structures that require people with similar job functions at corporate and in business units. The reduced efficiency for all staff functions is seen as a trade-off for being closer to customers.

5. **Smaller companies** may have higher ratios of communicators to employees simply because some communication functions are staffed the same way, regardless of the number of employees or customers. For example, two companies may both have an editor of the employee publication. Yet a company with 100,000 employees will have a more efficient ratio of publication editors to employees than a company of 1,000 employees.

## Quantify output accurately

A number of variable factors about the way communication is handled in organizations are not immediately apparent to those who try to calculate our efficiency. An employee publication may range from a daily bulletin to a weekly newsletter to a quarterly magazine. Even companies with similar frequencies will vary on:

- The number of pages, number of articles per page, number of words per page and graphics;
- Extent to which the editors simply edit information that rolls into their offices or proactively seek out the stories they publish;

- Extent to which the publications are available on-line.

And yet, the benchmarkers may want to calculate the cost per issue of a particular publication and compare that against other companies' publications – without asking about the variations above.

## Count noses consistently

Even counting the number of people doing communication in order to calculate the financial metrics presents challenges.

Who should be included as part of the "communication department," whose staff size and budget will be measured as a percentage of company revenue or employee population? Other staff functions are generally more clearly delineated.

Finance, for instance, is generally an easy-to-identify group, reporting to a vice-president who in turn reports to the president. Communicators may be split among several departments, such as public affairs, HR, marketing and information systems.

If we're counting full-time equivalent staff (FTEs), how do we account for the outside vendors we use? Do we count the administrative assistants or HR representatives in the field who assist us? How do we count internal communicators versus external communicators when many individuals split their time among these functions, and rarely keep track of how their time is divided? Most importantly, have the companies we're being benchmarked against counted their FTEs the same way?

Companies that have small staffs and outsource much of the writing, graphic design and programming will look highly efficient on staffing levels, yet might be much higher on total budget. Which metrics will they be measured on? **TCM**



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**Next issue**  
Angela Sinickas considers the right metrics for benchmarking.

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